



STATE OF THE STATE ADDRESS OF GOVERNOR DENNIS DAUGAARD

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 8, 2013

Thank you. Now those of you keeping track of how long my speech will be – it has just now started and does not include the Lt. Governor’s generous introductory remarks about my wife as I wrote them. I want you to know that this will be the shortest State of State speech that I have given.

Thank you. It’s good to have you back. I want to welcome you all to Pierre.

We are all here because South Dakota’s voters – our friends and our neighbors – sent us here with their votes. We are here to represent them. They elected us because they believe that we share their values and their priorities for South Dakota.

You and I – the Legislature and the Governor – are stewards of this state government.

Stewardship is defined as “careful and responsible management of something that is entrusted to one.” The people of South Dakota have entrusted their state government to us, and they are counting on us to be good stewards. This isn’t our state government. It isn’t our Capitol building. It isn’t our \$4 billion budget. It belongs to all the people of South Dakota. And as our state seal says, “Under God, the People rule.”

The People have entrusted this state government to our care, and we must operate it in their best interests, by applying the values that they hold. This past election, our voters told us that they value structurally sound budget processes, a fiscal management, and a balanced budget. They also told us they don’t want

higher taxes, even to fund important government services that they support, and we know they support.

As good stewards, we need to act “carefully and responsibly” to build a stronger South Dakota. That means we must think of the long term, not just the short term, and make decisions for the next generation.

Let me open today with a story.

Our State Capitol building, where we are today, is 103 years old. When plans for the construction of this building were being made, our state leaders began with a frugal decision. Rather than design a new capitol from scratch, they hired the same Minneapolis firm which had just designed the Montana State Capitol. We saved thousands of dollars by adapting the Montana State Capitol architectural drawings to our own. In fact, today, one book calls our capitol and their capitol “fraternal twins.”

Speed ahead a few years. In Montana, the capitol rotunda floor, which is in part comprised of glass prisms, had been at risk to collapse and had to be completely replaced. Of course, our Bureau of Administration here in South Dakota took great interest in this – because our capitol rotunda has that same kind of floor with the same kind of glass prisms. An analysis showed that our floor was inadequately reinforced as well.

We took action last year, and if you were here last summer you might have seen some of the construction taking place on the first floor. State work crews added quarter-inch thick steel plates to the underside of the floor panels, with laser cut-outs for each of the glass prisms. These plates were welded to reinforced steel beams. The new underside of the floor was painted and the plaster was recast to match the former appearance of the floor.

That floor, which could have become a risk and a liability, doesn’t look much different now than it did a year ago, or even 100 years ago. But the floor is structurally sound now for the next 100 years.

That is good stewardship. It isn’t as attention-getting as a new program, but instead of initiating something new that we can’t afford, or can’t maintain, we are

taking care of what we already have. We are being good stewards. We are reinforcing the floor.

Of course, the best example of good stewardship is what we did together two years ago to achieve a structurally balanced budget. I am strongly committed to maintaining that structural balance. Some states are still struggling to achieve balance. Last Friday, the National Association of State Budget Officers sent out its weekly news review. Let me give you some of the bad news that other states are still facing:

Connecticut acted three weeks ago to eliminate their FY13 budget deficit of \$252 million. Their tax revenues are coming in lower than the overly optimistic budget revenue estimates which they had adopted. They were forced to cut education, cut tourism, and cut social services. They are also borrowing money and using some of their reserves. That's right now – that is this year's budget.

Delaware's FY13 budget is at least \$50 million short. Delaware is a state with a population about like ours. Temporary tax increases, which were imposed in response to the recession, were supposed to expire starting next year. Now, they will probably have to be extended.

In Georgia, tax collections declined by one percent last month – ours went up – theirs went down, and FY13 revenues in Georgia are coming in below adopted revenue estimates. State agencies have been instructed to cut three percent from their appropriated budgets right now.

Louisiana will need to make \$165 million in mid-year budget cuts to balance this year's budget.

Maine's governor ordered \$35 million in mid-year spending cuts to balance this year's budget.

Massachusetts' current budget gap is \$540 million. Minnesota's deficit is \$1.1 billion. Mississippi is short. New Jersey is short. So are New York and Vermont. Illinois, Kentucky, and others face enormous pension shortfalls. In Kentucky alone, if their revenue grows by three percent, every bit of that growth will be consumed by the pension demands – nothing for education, nothing for Medicaid, nothing for other state services.

Among the states there are bright spots, and South Dakota is a comparative bright spot, because we have contained our spending and adopted conservative revenue estimates. I want to thank you all for doing this. I want to thank everyone across our entire state for the sacrifice necessary to bring our expenditures down to the revenues we were receiving. Thank you all for your selflessness.

Our current year's budget is running better than we projected, providing funds for one-time projects in FY13. As other states are looking where to cut, we can look where shall we spend these dollars. As I discussed last month, I believe that good stewardship would employ one-time funds to improve our structural soundness by eliminating a liability, building or improving an asset, securing an asset, or endowing a program for the future. I've offered ideas for some of that one-time spending, and I'm looking forward to hearing some of your ideas as well.

Over the past two years, our state agencies have undertaken dozens of projects and initiatives to "reinforce the floor" of state government and to be good stewards of our tax dollars. I'd like to share a few examples of those:

As we discussed last month, the Department of Social Services and the Bureau of Administration have been working together on a plan to deal with the dilapidated buildings at the Human Services Center in Yankton. These buildings have fallen into disrepair and become a liability to the state. If you agree, work will begin this year to restore some of the most historically significant structures, while others will be demolished. It is long past the time for us to be good stewards of this property.

Our Department of Agriculture's investment of \$6 million to fight the mountain pine beetle is paying off already, as we have slowed the spread of this epidemic. Our efforts have been particularly successful in Custer State Park, where state crews, inmates, and contractors have removed more than 100,000 pine beetle-infested trees. If you agree, we will invest still another \$2 million next year to partner with counties on further beetle suppression efforts throughout the Black Hills.

In May, the Department of Labor and Regulation instituted a new program to help those on unemployment for more than 12 weeks to find a job quickly. The

program requires participants to be actively searching for work, honing old skills or learning new ones, and taking advantage of intensive personal services with local staff. Since the program began, three out of four participants are off the unemployment rolls.

Continued tourism promotion has brought record numbers of visitors to South Dakota and has grown this important industry. That success is due, in no small part, to the tourism tax that the industry imposed on itself several years ago to fund promotion efforts. Much of this tax is paid by visitors from out-of-state, and I strongly support the industry's effort this year to make that tax permanent.

Our Department of Health continues to be a national leader in promoting the importance of immunizations. South Dakota consistently has among the highest immunization rates in the nation for children entering kindergarten, and for the past two years, we have led the nation in overall flu vaccination rates.

The Department of Education and the Board of Regents are working together to redesign remediation courses so that high school students who need help can complete remediation before they enter college. Under the old system, incoming college students spent time and money during their first semester on remediation classes, and that setback led to dropouts. The new system uses the ACT Test to identify students while they are still in high school, and then offers them a shorter and more targeted remedial class, so they are ready when they enter college.

The Department of Environment and Natural Resources has been working. They have continued to be a good steward of our environment, making South Dakota only one of seven states in the nation to meet all federal air quality standards and one of only a few states implementing all National Primary Drinking Water Standards. Our air and water is clean.

The Department of Transportation has our state highway system's pavements and bridges in as good a shape as they've ever been, based on long-utilized criteria for evaluation of their condition.

We are working with the Education Enhancement Funding Corporation to refinance the state's tobacco bonds, which were issued ten years ago as a result of the Master Settlement Agreement with tobacco companies. The refinancing is a prudent step that will mean more money into the Education Enhancement Trust

Fund, and also a larger distribution from that fund to support education in South Dakota.

Speaking of the trust funds, I'm pleased that our voters approved Constitutional Amendment O, which protects the principal of the Cement Plant Trust Fund and makes it structurally sound for future generations.

The Department of Social Services has been recognized by the federal government as being the best in the nation in Medicaid administration accuracy. More than any other state, we protect against fraudulent claims, and we make accurate eligibility determinations. The Department of Social Services has also cut wait times for in-patient substance abuse treatment down from 30 days to 2 days. The department's implementation of the findings of last year's Medicaid Solutions Workgroup is already saving the state \$500,000 a year.

Our Department of Corrections is doing good work. It has achieved Level 4 certification by the Council of Juvenile Correctional Administrators. In 2011, we were the first state in the nation to do this, and last year we maintained this certification for a second year. I have required our juvenile facilities to be certified by these national, performance-based measures, and I'm proud that DOC has reached this high standard.

Our Department of Veterans Affairs this year will begin construction of a new veterans' home in Hot Springs, including energy efficient construction and a wood-chip boiler. As the "greatest generation" of veterans from World War II and the Korean War are replaced by Vietnam-era veterans entering their retirement years, we have a new generation of veterans returning from the frontlines. Now, more than ever, we need a state veterans' home that can serve our state's veterans in the decades to come.

Last year, I had the opportunity to join a Department of Defense trip to Kuwait and Afghanistan to visit South Dakota's troops. Seeing the bleak landscape of Afghanistan and the extreme desert conditions made me appreciate even more the sacrifice that every member of our military makes for our nation. That's why I'm proud that the Department helped veterans obtain over \$110 million in benefits last year.

Let's take a moment now to thank our veterans for all they have done for us. All veterans, all current and former service members of regular armed forces, National Guard and Reserve, please stand and be recognized.

I also want to update you on several ongoing efforts that began sometime during the past couple of years.

The Lt. Governor made mention of Linda's Infant Mortality Task Force. Two years ago, I announced an effort to reduce infant mortality in South Dakota, led by Linda and the Department of Health. Following up on one of the task force's key recommendations, the state has distributed more than 500 safe sleep kits to families who do not have a safe place for their babies to sleep.

Last year, I also proposed the South Dakota Workforce Initiative – SD WINS – and I was pleased that the Legislature approved every aspect of that proposal. This package of 20 initiatives is focused on developing the qualified workforce that will underpin our economic growth over the next decade.

We have increased the state's capacity to train welders and machinists. I directed economic development grants to purchase machinery to establish a new welding program at Mitchell Tech, adding 18 new training slots this year. In addition, we funded the development of an innovative new distance learning program at Lake Area Tech to deliver online distance training in welding and precision machining. We have expanded the welding program at Mike Durfee State Prison in Springfield, to train 32 more inmates in this skilled trade.

I have also asked the Governor's Office of Economic Development to redirect some Community Development Block Grant dollars to workforce training activities. Since implementing this change, eight grants totaling over \$1 million have provided funds for training over 300 workers in jobs including certified nursing assistants, training for commercial driver licenses, and others.

Another aspect of SD WINS is improving the availability of health care providers in rural South Dakota. Access to health care is important to the quality of life in our rural areas.

Last session, you passed bills that are already making a difference. The Recruitment Assistance Program has placed physicians, physicians' assistants,

nurse practitioners, and dentists in seven small communities. The Rural Health Facility Recruitment Assistance Program has helped place 60 more health professionals in 35 communities. We are also beginning a program that will place third-year medical students in rural settings such as Milbank, Mobridge, Parkston, Platte, and Winner. In addition, the Primary Care Task Force met this year and a smaller oversight committee will continue to monitor implementation of these efforts. I want to stop and thank Senator Brown, Senator Sutton, Representative Hawley, and Representative Magstadt for their participation on this important task force.

Last year, we also redoubled our efforts to market Dakota Roots, a successful program that Governor Rounds created to invite former South Dakotans back home to work. Through a focused campaign using social media, we had a record number of new job seekers enter the Dakota Roots program. Last year alone, this program brought 536 South Dakotans back home to take a job here.

We have also begun work on the New South Dakotans program, which partners with South Dakota companies to recruit skilled out-of-state workers into South Dakota. The program has gotten off to a slower start than I had hoped, and we have expended less than ten percent of the funds, but it is beginning to show results. So far, businesses from across South Dakota, 35 of them have enrolled in the program, listing over 250 job openings. They have successfully attracted 55 out-of-state workers who have moved to South Dakota, or are in the process of moving, to accept hard-to-fill positions that we couldn't fill after thirty days in South Dakota. I'm hopeful that as more businesses use the program, the success will grow.

Our workforce development efforts could not be more important, because South Dakota continues to have great success in attracting out-of-state business and growing in-state businesses. In fact, the Governor's Office of Economic Development aided 80 different companies that were expanding in South Dakota last year.

Almost a year ago, we announced the decision by Bel Brands to build a cheese manufacturing plant in Brookings. This is the largest value-added ag project in our state's recent history. Bel Brands is investing \$100 million in construction costs, which is well under way in Brookings and at full capacity, it will employ 400 South Dakotans.

We are seeing a resurgence of the financial services industry in Sioux Falls. Capital One added 400 new jobs in 2012, and Twin City Federal created still another 200.

We are also welcoming new companies that will service the oil and gas sector in the west, including Pipeline Plastics in Belle Fourche and WL Plastics in Rapid City, with each company adding 40 jobs.

An expansion of Adams Thermal Systems in Canton retained 600 jobs and added another 50 jobs. An expansion of Baldwin Filters in Yankton will add up to 70 jobs over the next three years.

It should be no surprise that South Dakota's economy continues to grow while other states struggle. The Small Business and Entrepreneurship Council puts South Dakota #1 on its Business Policy Index, based on 46 factors. The Dow Jones weekly newspaper, Barron's, named South Dakota the "Best Run" state in America for our sound financial management. Our state has ranked in the top three in categories such as lowest state and local tax burdens, best business tax climate, highest average credit ranking, and best state for young people.

And so I'm clear – I don't know what their definition of young people is, but I'm defining "young people" as anyone under 65.

One continuing challenge to our economic development effort is the Contractors Excise Tax. Although our tax burden overall is favorable, this tax imposes a unique cost, up-front, on new construction investment. Over the past several years, we have tried several approaches to mitigate this problem, including the automatic refund program that expired at the end of last month, and the discretionary grant program that was rejected by the voters. I know there is still a concern about this tax, and about the adequacy of our state's economic development programs. I welcome a discussion with the Legislature this year about how we should move forward. I need your help and your ideas.

Another good example of our leaders working together has been in the area of oil and gas. This year I convened two work groups, and I know the Legislature did likewise. The first to explore our potential for oil development, and the second to examine the areas where preparation may be needed in response to

development in South Dakota and in North Dakota. At the same time, the Legislature formed an interim committee to study potential legislation to deal with these important issues. Although our oil and gas production may not reach the level of our friends in North Dakota, the work of the Legislature, the Department of Environment and Natural Resources, and others will put South Dakota in a better position to capitalize on our potential. If we can't pull oil out of our ground, let's help North Dakota do so with services and products in South Dakota.

Another initiative I launched almost two years ago is the "Better Government" initiative – we all have our lingo. Better Government aims for less regulation, more openness, and more efficiency. This isn't glamorous, but it's important, and we've made progress this year.

Let's talk about less regulation. Conversely, the proliferation of laws and regulations. One hundred years ago this month, in 1913, Governor Robert S. Vessey stood right here where I am standing and gave his State of the State address. He said this as part of his State of the State address one hundred years ago:

"It is my conviction, and in it I am not alone, that the tendency of very many legislative bodies is toward too many rather than too few new laws and I again offer the oft-repeated statement that there is a demand for the reduction and curtailment of the amount of legislation biennially passed by the Legislature and placed among our laws."

Governor Vessey was right, and certainly the governor and the state government agencies also have a tendency toward more laws as well. But we must push back. That's why I'm proud that our Better Government Red Tape Review had another strong year, finding obsolete and unnecessary statutes and rules that can be eliminated. Last year, we eliminated 177 sections and over 26,000 words from the statutory code and the administrative rules. This year, we will propose eliminating 650 sections and more than 78,000 words. I want to applaud the folks at the Departments of Health, Transportation, Revenue, Environment and Natural Resources, Public Safety, Agriculture, and Human Services for their work this past year.

Better Government took our Red Tape Review a step further this year by conducting an exhaustive review of executive orders. Many executive orders are signed by governors without a sunset clause, and technically remain in force long after their purpose has been served. I will be rescinding over 100 executive orders, dating back as far as the administration of Governor Archie Gubbrud, and we are going to examine other executive orders as well.

The second aspect of Better Government is more openness. Open Government had a banner year in 2012 with the formation of the Open Government Task Force, which Attorney General Jackley and I convened this summer. Although there have been major changes toward more openness over the last decade, there is always room to improve. We are grateful for the participation of Senator Novstrup, and Representatives Bolin and Wismer on this work group, and I hope you will give the open government bills favorable consideration this session.

The third component of Better Government is the implementation of e-Government. You may have heard me say this in the past, but it bears repeating. In our digital age, state government's motto should be "online, not standing in line."

For example, the Department of Revenue has installed self-service terminals throughout the state to make it easier for citizens to renew their vehicle license tags. The Bureau of Human Resources has moved to an entirely electronic system for announcing job openings and accepting applications. Game, Fish, and Parks has released a mobile app that allows you to buy your hunting or fishing license, or reserve a camping site on your smartphone.

In the past year, the Bureau of Information and Telecommunications has worked with agencies to complete 22 different e-Government projects, and they have another 40 more in process. These efforts will make government more efficient and more accessible to our citizens. That is what good stewardship is about. We run state government efficiently to benefit the people we serve.

Another task force worked hard in 2012 on Criminal Justice. A major expense to our state is corrections, and I'd like to take a few moments to talk to you about that today.

Thirty-five years ago, we had fewer than 550 inmates in our prison system. Today, we have six times that many. In fact, South Dakota has a higher imprisonment rate than any other state in our region. Per capita we lock up 75 percent more men than North Dakota and four times as many women as Minnesota. Not surprisingly, the growth in our prison population comes with a price tag. Our general fund spending on adult corrections has more than tripled during the last 20 years.

When I learned about South Dakota's imprisonment rate and how much higher it was, I wondered about it. It honestly surprised me. I first doubted the data. I said, "This can't be right, they must be counting differently somehow." Then when the data was proven to be comparable, I wondered, "Well, maybe our public safety is better." "More bad guys locked up – less crime," I thought. Unfortunately, that isn't the case either. Our public safety is no better than places with lower imprisonment rates. In fact, if you look over the past ten years, 17 states have lowered their imprisonment rate. During that same time, all 17 of them also lowered their crime rates. In fact, the crime rate in those states has fallen twice as fast as the crime rates in South Dakota. Our approach isn't better.

If our state policy does not change, South Dakota's prison population will grow by more than 900 inmates in the next decade. That's on top of the current population of about 3600 men and women – an increase of 25 percent.

We'll need to build a new men's prison and a new women's prison. The path we are on will cost us an additional \$224 million over the next decade, about \$100 million in increased operating costs for those two new prisons that will cost us about \$125 million. Is this the best way to spend the taxpayer's money? Is this the best way for us to improve public safety? As good stewards of our state government, it is our obligation to carefully consider these questions.

That is why, this past July, I joined Chief Justice Gilbertson and your legislative leadership in forming the Criminal Justice Initiative Work Group. Top criminal justice leaders and stakeholders from both parties and all three branches of government, as well as law enforcement, treatment providers, prosecutors, and defense attorneys all had seats at the table. I want to thank Speaker Gosch, Senator Bradford, Senator Tieszen, Senator Holien, Senator Lucas, and Representative Sly for their hard work as work group members.

The charge to this work group could not have been simpler:

1. Improve public safety.
2. Hold offenders more accountable.
3. Give us a better return on our criminal justice spending.

The workgroup did not have to reinvent the wheel. The 18 members themselves had more than 250 years of collective legal, law enforcement, and legislative experience, and then they drew on input from more than 400 stakeholders across the state and a respected Council of Advisors. The workgroup also looked to the experiences of other states. In recent years, more than 20 states, many of them very conservative states like Texas, Kentucky, and South Carolina, have undertaken what they call “justice reinvestment.” Justice reinvestment focuses resources on criminal justice tools that are proven to work. It focuses resources on evidence-based practices – not based on antidotes, not based on intuition, not based on what we think will work, but which has been proven to work elsewhere, and the evidence shows works. It focuses resources on evidence based practices that have been proven in application. Other states have demonstrated that justice reinvestment works, and the workgroup unanimously embraced that concept as the foundation for its recommendations.

Every state is different, and the workgroup made it clear that South Dakota data and South Dakota values need to drive justice reinvestment in South Dakota. The final report of the workgroup, which legislators received last November, makes 18 recommendations, and I’d like to mention 3 of them today.

One of the recommendations is about alternative courts. South Dakota has fewer drug courts than any other state in the country, but the drug courts we do have produce impressive results. Fewer than 20 percent of the graduates of South Dakota drug courts and DUI courts over the last five years have committed new felonies. That is a remarkable success rate, because these offenders are repeat offenders. They are not first-time law-breakers who simply need a wake-up call. These are usually people with serious addictions to drugs or alcohol who have committed a number of crimes in recent years. Getting 80 percent of them back on the right track is a real success, and the budget I outlined for you last month contains funding for expansions of two existing alternative courts and adds two more. Drug and DUI courts may be expensive compared to routine probation, but they are a bargain compared to the costs of imprisonment. By holding offenders

more accountable and by giving them one more chance to avoid prison, alternative courts are changing behavior and improving public safety.

A second recommendation of the workgroup was to implement Hawaii's HOPE program here in South Dakota. The HOPE program is a lot like our 24/7 program, but it works with those abusing drugs, rather than alcohol. The system works because of swift and certain sanctions. Each morning, participating offenders must call into an automated drug testing hotline, which will inform them whether or not they have been selected that day to come in for a drug test. Failing to show for their drug test will trigger automatic jail time. Failing the drug test will trigger automatic jail time. Hawaii has used the HOPE program on hundreds of meth addicts, and has seen a remarkable degree of success. The offenders in HOPE have been 55 percent less likely to be arrested for a new crime. They are 72 percent less likely to use drugs. This success has led to several other similar programs across the nation – including states like Texas and Oregon – and initial results indicate that swift and certain sanctions deter crime and save correctional dollars. Here in South Dakota, we would like to begin this program with one urban pilot project and one rural pilot project. If these pilots are successful, we can implement the program statewide.

The final workgroup recommendation I'll discuss today deals with increased supervision of offenders within the community. More than 80 percent of those admitted to prison in South Dakota each year are convicted of non-violent crimes. I'll say that again – 80 percent of persons admitted to prison in South Dakota each year are convicted of non-violent crimes. Prison is an expensive place to change offender behavior, and studies have shown that prison is not the effective place to treat those with drug, alcohol, and mental health issues. Sanctioning those offenders in other ways will be less expensive and more effective - less expensive and more effective - than doing so in prison. For that to work, though, we need additional treatment and supervision capacity. We can't send more probationers or parolees out into the community without more court service officers and probation officers to supervise them. The workgroup recommends, and my budget proposes, funding to build that capacity. Investing those dollars today will save millions in prison costs.

This set of proposals – and I have just mentioned three of them – this set of proposals is not about being soft on crime. It's about being smart on crime. If implemented, the recommendations of the final report are estimated to save our

state \$200 million in averted construction and operating costs over the next decade. More importantly, these recommendations will hold offenders more accountable and make our state safer. What more could we want? Save money, make offenders more accountable, and make the state safer. It's a win – win – win.

We aren't relying on speculation or wishful thinking either. As I mentioned, these recommendations are not based on intuition. They are not based on what we hope might work as a trial. Data matters, and the data proves that justice reinvestment has worked in states across the country. In Texas, they have saved \$2 billion and 17,000 prison beds. In Connecticut, probationer re-arrest rates have been reduced by 11 percent, and the state has been able to close one of their prisons, saving more than \$3 million a year. In Maryland, offenders under a new intense supervision program are 38 percent less likely to be arrested for new crimes. Being smart on crime works.

Our state faces a clear choice. Down one path, we can continue to build prisons and allow corrections to consume an ever increasing proportion of taxpayers' dollars. The alternative is to follow the path blazed by almost two dozen states across the country. A path that makes us safer and one that will save our state millions of dollars. I support that path, and I am not alone. The proposed legislation you will consider has been endorsed by the sheriffs association, endorsed by the police chiefs association, by victims' advocates, the states' attorneys association, judges, treatment providers, by the counties, by our state attorney general, by legislators, and by the Chief Justice of our Supreme Court.

Following the State of the State today, I will join Chief Justice Gilbertson, and legislative leaders in the Senate Chamber, as we file the South Dakota Public Safety Improvement Act. As our nation's capital continues to struggle with gridlock and partisanship, South Dakota is again going to be an example of how our government leaders can use common sense and shared values to work together.

I have two more proposals I'd like to talk to you about today before my closing remarks – first, about our unique opportunity to create a new state asset at Blood Run.

Long before white settlers came to what is now South Dakota, a number of Native American tribes gathered along a winding, wooded creek to trade, bury loved ones, and establish bonds of peace and friendship.

Rolling hills, broad floodplains, rock-covered burial mounds, and steep riverside bluffs mark the area, one of the oldest sites of long-term inhabitation in America.

In 1970, the National Park Service designated this peaceful place southeast of Sioux Falls as the Blood Run National Historic Landmark because of its significance to our shared history.

This year, I will propose legislation to make this site South Dakota's 13th state park. As the first new state park since 1973, this unique location will provide new educational and outdoor recreation opportunities for our citizens, and I invite you to join me in supporting this new state park.

The second proposal I'd like to describe is about spouses of men and women in the military.

I mentioned earlier my trip to Afghanistan and Kuwait. Again, seeing our troops overseas is a reminder of the sacrifices they make to protect us all. It is not just these brave men and women who make sacrifices – their families sacrifice as well. They pay a price.

As we know, just as we have military men and women overseas, there are other servicemen and women serving much closer to home here in South Dakota. Many of them are stationed at Ellsworth Air Force Base. My last proposal today is for these families.

Thirty-five percent of military spouses in the workforce are in professions that require professional licensure or certification. When a military family is transferred to our state, that family should not lose earning power for an extended period while a spouse seeks licensure in South Dakota.

I will be proposing a professional licensure portability bill for military spouses. This bill will streamline the process so that a military spouse with a license or certificate in another state can easily transfer into South Dakota. Nearly half of

our sister states have approved similar legislation, and I hope you will vote to have South Dakota join those states.

Before I close, I would like to visit one other topic – the fiscal situation of our federal government. I know most legislators were here last month when I spoke of this, but it bears repeating, for those of you who were not here, as well as for viewers and listeners who did not hear the budget speech. Moreover, because of last week's congressional action, I can also update you on this situation.

The federal government's financial situation is very significant. Federal fiscal year 2012 ended last September 30. For that year, revenue was about \$2.4 trillion. We spent about \$3.5 trillion. The deficit for the year as you can see is \$1.1 trillion. This is the graph I showed you last month showing the deficit.

The "sequester cuts" which were scheduled to take effect last week would have reduced federal spending by about \$120 billion a year. The cutout area on the blue bar shows how the spending would have been cut by the sequester. The cut out on the red bar shows how the cuts would have reduced the deficit.

Look at the size of those cuts in relation to income and expenses. The impact shown is the entire sequester, not just the part of discretionary spending, but also the military cuts as well. These so-called "drastic" cuts that everyone wanted so desperately to avoid are just a sliver of what we need to face. We couldn't even face that. We postponed those cuts until March 1. Who knows what will happen on March 1.

Look at the green bar. What about revenue? Another way to reduce the deficit is to increase revenue. In the months and weeks leading up to last week, there was heated partisan debate. All the Sunday news programs had partisan debate about this - raising taxes. Most of the debate surrounded whether higher incomes should be taxed at a higher rate. In the end, Congress adopted legislation, and the President signed it, that creates a higher marginal rate in 2013, the year we are in right now, for individuals earning over \$400,000 and couples earning over \$450,000. Taxes on capital gains will also be higher this year. Taxes on virtually all other income will remain at the lower levels established in 2001, 2003, and 2010. Will that solve the problem? What will that do for us? Let's take a look.

The increased taxes on higher incomes will reduce the deficit by \$600 billion over ten years – or about \$60 billion per year. But that's not the only tax increase. Another tax increase will impact the deficit. Three years ago, as a response to the recession, payroll taxes were temporarily reduced by two percent. That reduction expired last week. The resulting increase in payroll taxes will reduce the deficit, depending upon who you ask, by somewhere between \$95 billion and \$115 billion. I am just going to call it \$100 billion for simplicity.

The revenue bar has now been lengthened and the deficit bar has been shortened to show you the share of the deficit bridged by the tax changes on top of the deficit which would have been bridged by the expenses. Look at the deficit that remains. Remember – this isn't the federal debt. This is just the deficit for one year. The red bar really is shorter than it should be, and the spending bar is shorter than it should be because those cuts shown were not enacted. They were postponed to March 1. If they take place, this is what would happen.

Remember the analogy I used in the budget address – cut off the zeros from all these numbers. In 2012, our nation had an income – pretend it is your child – they had an income of \$24,000. They are spending \$35,000, and their credit card debt was \$163,000. Imagine that is your child. What would you think of that situation? The new tax law changes have given us a little more income – so now instead of making \$24,000, your child is making \$25,600. It's a good step, but it is still a long way from what we need to do. If all of the sequester cuts take effect on March 1, our expenses will be cut to \$33,800 per year from the \$35,000. Instead of an \$11,000 gap that your child has, they have an \$8,200 gap, if the sequester cuts take place. And that is a big "if." We have done nothing at all to reduce our credit card bill, which was \$163,000 last month, now is \$164,000 a month later. At this rate, by the end of this federal fiscal year, it will jump up to \$172,000.

I am not trying to be an alarmist, and I'm not telling you that I have the answer. Still, I think that, as good stewards of our state, we need to understand the scale of this problem. We need to think about what this means for our future, and what it may mean for the dependability of federal funds upon which our state, our school districts, and other local governments depend.

As you can see, these are challenging times for South Dakota and for our nation. Our economy continues to recover, but the federal government is placing more

burdens on our state. We continue to support our troops overseas, even as here at home we faced floods, fires, and drought.

It isn't an easy time to be here in Pierre. I suppose it never is. But our economy is strong, our budget is balanced, and our state is structurally sound because of the good stewardship that we have shown these past two years, and even more so, because of the good stewardship of dozens of governors and thousands of legislators who have come before us.

We have not forgotten that this government belongs to the people. We have remembered our South Dakota values of self-reliance, persistence, and frugality. We have shown our nation that good stewardship, strong values, and a little common sense can lead to a stronger budget, a stronger economy, and a stronger South Dakota.

That's why I'm optimistic about our future. I know that in South Dakota, we have always done what it takes to overcome adversity and emerge into greater prosperity.

Let's be good stewards this session. Let's be courageous and creative in finding solutions, while showing great respect to our colleagues and our constituents. Let's get to work.